

**LA PORTE CITY UTILITIES**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2008**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-12
Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 14
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 15
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C 16
Notes to Financial Statements	17-20
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Proprietary Funds	22
Notes to Required Supplementary Information – Budgetary Reporting	23
Other Supplementary Information:	
	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds	1 25
Schedule of Indebtedness	2 26-27
Bond and Note Maturities	3 28
Schedule of Receipts by Source and Disbursements by Function – All Proprietary Funds	4 29
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	30-31
Schedule of Findings and Questioned Costs	32-34
Staff	35

**La Porte City Utilities**

**Board of Trustees**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phil Norris	Trustee - Chairman	September 2009
Don Heckroth	Trustee – Secretary	September 2011
Jon Barz	Trustee	September 2013

## **La Porte City Utilities**

### **Independent Auditor's Report**

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2008, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the La Porte City Utilities's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2008 on our consideration of the La Porte City Utilities's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the La Porte City Utilities's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ridihalgh, Fuelling, Snitker, Weber & Co. P.C.*

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

December 30, 2008

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2008

## LA PORTE CITY UTILITIES

---

200 Main Street, La Porte City, Iowa 50651  
Phone: (319) 342-3139  
Fax: (319) 342-3770  
Email: [lpcutil@netins.net](mailto:lpcutil@netins.net)

### MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. It is to be used in conjunction with the Utilities Annual Report, which follow.

#### BASIS OF ACCOUNTING

The Utilities has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a method of accounting other than generally accepted accounting principles. Basis of accounting is a reference as to *when* financial events are recorded. Under the modified cash basis of accounting, revenues and expenses and their related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (*such as accounts receivable and revenue for billed or provided services not yet collected*); as well as certain liabilities and their related expenses (*such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities*) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

#### HOW TO USE THE ANNUAL REPORT

The items in the annual report consist of a series of financial statements and other information as follows:

##### **Basic Financial Statements**

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)  
Presents the major program costs and program receipts associated with that program. This is to determine the extent that the programs are self-supporting.
- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)  
Presents the Utilities operations in more detail by providing information on the most significant funds with the non-major funds lumped together.
- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)  
Reconciles any differences between Exhibit A and Exhibit B

##### **Notes to the Financial Statements**

- Provide additional information essential to a full understanding of the data provided in the basic financial statements.

##### **Required Supplementary Information**

- Further explains and supports the financial statements with a comparison of the Utilities budget for the year.

##### **Other Supplementary Information**

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds** (Schedule 1)  
Presents the non-major funds in more detail that were lumped together in Exhibit B.

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2008

- **Schedule of Indebtedness** (Schedule 2)  
Presents detailed information on outstanding debts incurred by the Utilities.
- **Bond and Note Maturities** (Schedule 3)  
Summarized bond repayment schedule
- **Schedule of Receipts by Source and Disbursements by Function – All Proprietary Funds** (Schedule 4)  
Provides a multi-year comparison of the Utilities revenues and disbursements as a whole.

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in the Annual Report and the information they provide.

### **BASIC FINANCIAL STATEMENTS**

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)

The first section of the statement presents the major **Functions/Programs**. For the Utilities, those are the Electric Fund, Water fund, Debt Service Reserve Fund, Capital Improvement Reserve fund, and the Diesel Engine Reserve fund. The *Disbursements* are listed in the first column with *Charges for Service* and *Restricted Interest* revenues from each program to the right. The result is a Net (Expense)/Revenue. This is to determine the extent to which the programs support themselves.

The next section is the **General Receipts**. It shows the *Bond Proceeds*, *Unrestricted Interest*, *Miscellaneous Revenues*, and *Transfers*. These revenues are not listed above because they are not generated from the direct operation of the program.

Adding the *Business Type Activities Total* with the *Total General Receipts and Transfers* equals the *Change in Cash Basis Net Assets* or the total increase/(decrease) in net assets for the Utilities for the year. For the fiscal year ending June 30, 2008, the change in net assets was a decrease of \$38,771. Subtract that from the *Beginning Net Assets* balance of \$1,011,255 gives us a new *Cash Basis Net Assets – End of Year* balance of \$972,484.

The final section of this report shows that the *Cash Basis Net Assets* consist of \$423,660 in restricted funds, and \$548,824 in un-restricted funds. Of the restricted funds, some are required to be established by Bond Covenants, others by State Law, or some are established by the Board to help it control and manage money for particular purposes.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)

The Utilities have only one type of fund: Proprietary or Enterprise funds. These types of funds are used to report Business Type Activities (activities that are primarily self-supporting). The major funds the Utilities maintain are the Electric and Water fund, as well as the Debt Service Reserve Fund, Capital Improvement Reserve Fund, and the Diesel Engine Reserve Fund. All other funds are lumped together as Non-Major funds for the purpose of this report. For detailed information on the other funds, go to Other Supplementary Information, Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds (Schedule 1).

Each fund has its own column to report the different types of Receipts, with the disbursements subtracted to obtain the *Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements*. This gives us the Net Operating Revenue (Loss) for each fund. After adding in the Bond Proceeds and subtracting out the Debt Service disbursements, and Operating Transfers we come to the *Net Change in Cash Balances* for each fund. This is the Net "Profit/ (Loss)" for each of the funds

After adding the *Net Change in Cash Balances* to the *Cash Beginning Balances*, we have the new *Cash Ending Balance* for each of the funds.

The statement then also breaks down the *Cash Ending Balances* by Reserved and Unreserved.



LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2008

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets (Exhibit C)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

**FINANCIAL HIGHLIGHTS**

- The total revenues for all departments were \$2,763,473. This is an increase of \$992,383 from the previous year's revenues of \$1,771,090. Of this, \$881,080 is due to recalling the Revenue Bonds that were originally issued in March 2000 and issuing new bonds in May 2008 at a lower interest rate. Without the Bond Proceeds, our net revenues were \$1,882,393. An increase of \$111,303 or approximately 6.28 percent from the previous year's revenues.
  - Use of Money and Property in the 2008 fiscal year was \$39,959; this is a decrease of \$7,059 or approximately a 15 percent decrease from the previous year's earnings of \$47,018. Using some of the reserves for capital improvement projects coupled with decreasing interest rates resulted in this decrease.
  - The ice storm in February 2007 caused severe damage to thousands of miles of overhead electric lines, sub-stations, and generating plants. This included the main transmission line that brings La Porte City our electricity. La Porte City Utilities had to run the generators non-stop for six days in order to provide our service area with electricity until repairs were made to the incoming line. Black Hawk County was included with several counties in Iowa that were declared a "National Disaster Area" by the President of the United States. This qualified us to receive state and federal monies to recoup a portion of our expenses incurred to repair services and the costs associated with generating for so many days. We qualified for \$75,459.17 in public assistance funds. Of this amount, \$9,690.34 was received in the 2007 fiscal year with the remaining \$65,768.83 received in the 2008 fiscal year.
- The total disbursements for all departments were \$2,802,244. This is up \$1,167,858 or approximately 71.46 percent from the previous year's total expenses of \$1,634,385. Several items influenced this increase.
  - We refinanced our revenue bonds that were originally issued in March 2000 to take advantage of lower interest rates. In order to accomplish this, we had to technically "pay off" the old bonds for a total disbursement of \$1,019,635. This was made possible by receipting in the bond proceeds from the new bonds issued May 2008 for \$881,080 plus the amount budgeted to provide for our "regular" semi-annual bond payments which totaled \$154,560. This one payment of \$1,019,635 accounted for 87.3 percent of the increase in disbursements from the previous fiscal year.
  - Capital Improvements are an important part of providing reliable and quality services. Capital Improvement costs increased \$190,736 or 110.63 percent from \$172,410 in 2007 to \$363,146 in 2008. Completing two major projects in the 2008 fiscal year as well purchasing a new trencher and storage building contributed to the increase.
    - **Feeder #6:** An additional over-head distribution line was necessary to eliminate system deficiencies. The new line initiated at the sub-station and terminated at the bin site of East Central Iowa Co-Op. This project was started in the 2007 fiscal year and completed in the 2008 fiscal year. The project cost in 2008 was \$197,571.
    - **Sweet Addition:** The new housing sub-division south of Schull Avenue and east of Hwy 218 was originally developed in 2007. La Porte City Utilities incurred \$37,872 in expenses to provide electric services to this new development.
    - **Capital Purchases:** A storage building was purchased this year for a total cost of \$33,387 as well as a new Ditch Witch trencher and trailer for \$42,649.
- Expenses exceeded revenues resulting in a decrease in the net assets of \$38,771. This is compared to a net increase the previous year of \$136,705. The ending fund balance on June 30, 2008 was \$972,484.

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2008

	Year Ended June 30,		\$	
	2008	2007	Difference	% Change
Program Receipts:				
Charges for Service:				
Electric	\$1,457,509	\$1,401,369	\$56,140	4.01%
Water	\$241,532	\$236,948	\$4,584	1.93%
Restricted Interest	\$13,586	\$12,893	\$693	5.38%
General Receipts:				
Un-restricted Interest	\$26,373	\$34,125	-\$7,752	-22.72%
Miscellaneous	\$143,393	\$85,755	\$57,638	67.21%
Proceeds of Long Term Debt	\$881,080	\$0	\$881,080	100.00%
Total Receipts	\$2,763,473	\$1,771,090	\$992,383	155.81%
Disbursements:				
Operating Disbursements:				
Electric	\$1,276,757	\$1,154,714	\$122,043	10.57%
Water	142,706	152,666	-9,960	-6.52%
Capital Projects	363,146	172,410	190,736	110.63%
Debt Service	1,019,635	154,595	865,040	559.55%
Total Disbursements	\$2,802,244	\$1,634,385	\$1,167,858	71.46%
Increase (Decrease) in Cash Balance	-\$38,771	\$136,705	-\$175,475	-128.36%
Cash Basis Net Assets Beginning of Year	1,011,255	874,550		
Cash Basis Net Assets End of Year	\$972,484	\$1,011,255		

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2008

## 2008 BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved in April 2008. The amendment allowed for the following changes:

### Electric department

#### Revenue:

- Increased Charges for Services due to higher than anticipated kilowatt hours sold.
- Increased Use of Money and Property due to increased transfers from reserves for Capital Improvement projects.
- Increased Miscellaneous revenues due to receipt of FEMA and State funds for reimbursement of expenses due to the ice storm in February 2007.

#### Expenses:

- Increased purchased power costs due to additional kilowatts hours purchased on the open market.
- Increased capital project line items in anticipation of completing major projects.
- Increased capital expenditure line items due to purchase of storage building as well as a new trencher and trailer.

### Water department

#### Revenue:

- Increased Charges for Services due to higher volume of usage during the year.

#### Expenses:

- Decreased expenses due to lower than budgeted actual costs.

## DEBT ADMINISTRATION

As of June 30, 2008 the Utilities had an obligation of \$885,000 in Revenue Bonds outstanding. The bonds were originally issued March 1, 2000 for \$1,465,000. May 2008 the Series 2000 bonds were recalled and new Revenue Bonds were issued to take advantage of lowering interest rates. Interest rates were lowered from 5.0% - 5.8% for the 2000 Series Bonds down to 3.0% - 3.8% for the 2008 Series Bonds. The 2008 Series bonds are scheduled to mature in 2015.

## NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members considered many factors when setting the fiscal year 2009 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 125% of that year's scheduled Bond Payment. At the time of budgeting, the bond payment due in 2009 was \$154,210 that means we were required to have Net Operating Revenues in the Electric Department of at least \$192,763. The budgeted Net Operating Revenues were sufficient to cover the Bond Covenant requirement. Electric rates were expected to increase during the 2009 fiscal year.
- The current purchased power contract with Resale Power Group of Iowa (RPGI) expires January 1, 2009. It was unknown at the time of budgeting what the new contract would include for rate changes. An increase of 10% was estimated.
- The remaining items were budgeted fairly consistent compared to those of the 2008 fiscal year. There were minor increases to account for forecast increases in insurance and wages.
- Part of our Capital Plan includes setting monies aside each year for future purchases of capital assets. This was continued as part of the 2009 budget.

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2008

**2009 BUDGET SUMMARY**

	ELECTRIC	METER DEP	WATER	CAPITAL IMPRV RSV	DEBT SERVICE	DIESEL ENG IMPRV	DIESEL ENG RESERVE	TOTAL
<b>REVENUE</b>								
USE OF MONEY & PROP	17,474.00	320.00	3,810.00	7,716.00		0.00	6,823.00	36,143.00
CHARGES FOR SVCS	1,552,426.00		235,020.00					1,787,446.00
MISCELLANEOUS	58,072.00		14,964.00					73,036.00
OTHER FINANCING	20,000.00	0.00	0.00	91,000.00	154,210.00	0.00	0.00	265,210.00
<b>TOTAL REVENUE</b>	<b>1,647,972.00</b>	<b>320.00</b>	<b>253,794.00</b>	<b>98,716.00</b>	<b>154,210.00</b>	<b>0.00</b>	<b>6,823.00</b>	<b>2,161,835.00</b>

<b>EXPENDITURES</b>								
HOME & COMMUNITY	1,445,719.00		165,354.00		154,210.00			1,765,283.00
<b>TOTAL EXPENDITURES</b>	<b>1,445,719.00</b>	<b>0.00</b>	<b>165,354.00</b>	<b>0.00</b>	<b>154,210.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1,765,283.00</b>
LESS:								
DEBT SERVICE					154,210.00			154,210.00
CAPITAL PROJECTS	46,800.00		8,700.00					55,500.00
NET OPERATING EXP	1,398,919.00	0.00	156,654.00	0.00	0.00	0.00	0.00	1,555,573.00
TRANSFERS OUT	188,810.00	0.00	56,400.00	0.00		0.00	20,000.00	265,210.00
<b>TOTAL EXP/TRANSFERS</b>	<b>1,634,529.00</b>	<b>0.00</b>	<b>221,754.00</b>	<b>0.00</b>	<b>154,210.00</b>	<b>0.00</b>	<b>20,000.00</b>	<b>2,030,493.00</b>

<b>PROFIT/LOSS</b>	<b>13,443.00</b>	<b>320.00</b>	<b>32,040.00</b>	<b>98,716.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(13,177.00)</b>	<b>131,342.00</b>
BEGINNING BALANCE	168,812.21	9,847.47	88,402.69	240,072.79	0.00	10,000.00	164,131.58	681,266.74
ENDING BALANCE	182,255.21	10,167.47	120,442.69	338,788.79	0.00	10,000.00	150,954.58	812,608.74

**CONTACTING THE UTILITIES FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the Utilities finances and to show the Utilities are accountable for the money it receives. If you have questions about this report or need additional financial information, contact Christy Wylie, La Porte City Utilities Bookkeeper, 200 Main Street, La Porte City, Iowa.

## **Basic Financial Statements**

La Porte City Utilities  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Business Type Activities Total
<b>Functions / Programs:</b>				
Business type activities:				
Electric	\$ 1,634,984	1,457,509	-	(177,475)
Water	147,625	241,532	-	93,907
Debt Service	1,019,635	-	-	(1,019,635)
Capital Improvement Reserve	-	-	5,534	5,534
Diesel Engine Reserve	-	-	7,687	7,687
Non-major funds	-	-	365	365
Total business type activities	2,802,244	1,699,041	13,586	(1,089,617)
<b>General Receipts:</b>				
Bond proceeds				881,080
Unrestricted interest on investments				26,373
Miscellaneous				143,393
Transfers				-
Total general receipts and transfers				1,050,846
Change in cash basis net assets				(38,771)
Cash basis net assets beginning of year				1,011,255
Cash basis net assets end of year				\$ 972,484
<b>Cash Basis Net Assets</b>				
Restricted:				
Other purposes				423,660
Unrestricted				548,824
Total cash basis net assets				\$ 972,484

See notes to financial statements

La Porte City Utilities  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2008

	Enterprise Funds					Other Nonmajor Proprietary Funds	Total
	Electric	Water	Debt Service Reserve	Capital Improvement Reserve	Diesel Engine Reserve		
Operating receipts:							
Use of money and property	\$ 22,982	3,391	-	5,534	7,687	365	39,959
Charges for service	1,457,509	241,532	-	-	-	-	1,699,041
Miscellaneous	127,899	15,494	-	-	-	-	143,393
Total operating receipts	1,608,390	260,417	-	5,534	7,687	365	1,882,393
Operating disbursements:							
Business type activities	1,634,984	147,625	-	-	-	-	1,782,609
Total operating disbursements	1,634,984	147,625	-	-	-	-	1,782,609
Excess (deficiency) of operating receipts over (under) operating disbursements	(26,594)	112,792	-	5,534	7,687	365	99,784
Non-operating receipts (disbursements):							
Bond proceeds	-	-	881,080	-	-	-	881,080
Debt service	-	-	(1,019,635)	-	-	-	(1,019,635)
Total non-operating receipts (disbursements)	-	-	(138,555)	-	-	-	(138,555)
Excess (deficiency) of receipts over (under) disbursements	(26,594)	112,792	(138,555)	5,534	7,687	365	(38,771)
Operating transfers in/(out)	(167,155)	(65,900)	138,555	94,500	-	-	-
Net change in cash balances	(193,749)	46,892	-	100,034	7,687	365	(38,771)
Cash balances beginning of year	626,484	69,197	-	139,502	156,704	19,368	1,011,255
Cash balances end of year	\$ 432,735	116,089	-	239,536	164,391	19,733	972,484
<b>Cash Basis Fund Balances</b>							
Unreserved	432,735	116,089	-	-	-	-	548,824
Reserved	-	-	-	239,536	164,391	19,733	423,660
Total cash basis fund balances	\$ 432,735	116,089	-	239,536	164,391	19,733	972,484

See notes to financial statements

La Porte City Utilities

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Proprietary Funds

As of and for the year ended June 30, 2008

<b>Total enterprise funds cash balances (page 15)</b>	\$ 972,484
---	------------

The utility does not have an internal service fund.  
Therefore there are no reconciling items.

-

---

<b>Cash basis net assets of business type activities (page 14)</b>	<u>\$ 972,484</u>
--	-------------------

<b>Net change in cash balances (page 15)</b>	\$ (38,771)
--	-------------

The utility does not have an internal service fund.  
Therefore there are no reconciling items.

-

---

<b>Change in cash balance of business type activities (page 14)</b>	<u>\$ (38,771)</u>
---	--------------------

See notes to financial statements



La Porte City Utilities

Notes to Financial Statements

June 30, 2008

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa. The Utility is a legally separate organization, which has the authority to modify and approve its budget, modify and approve its rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of La Porte City, and they are approved by the City Council.

For financial reporting purposes, the La Porte City Utilities has included all funds.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. The Utility reports business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utility's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

Fund Financial Statements - Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining enterprise funds are aggregated and reported as nonmajor proprietary funds.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electricity.

The Water Fund accounts for the operation and maintenance of the Utility's water system.

The Debt Service Reserve Fund accounts for the principal and interest payments made for the Utility's Revenue Bonds.

The Capital Improvement Reserve Fund acts as a reserve fund for future capital improvements.

The Diesel Engine Reserve Fund was a reserve fund established per the bond covenants.

C. Measurement Focus and Basis of Accounting

The La Porte City Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's investments at June 30, 2008 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Certificates of Deposit	\$ 257,551	257,551	Various Dates

The Utility held investments in credit unions which are valued at \$257,551 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$645,519 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

### (3) Revenue Bonds Payable

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Utility Revenue Bond	
	Principal	Interest
2009	115,000	32,830
2010	120,000	26,855
2011	120,000	23,075
2012	125,000	19,115
2013	130,000	14,865
2014 – 2015	275,000	15,635
Total	\$ 885,000	132,375

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additionally, a reserve account within the Enterprise Funds shall be maintained. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

### (4) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the Utility is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$14,035, \$13,534, and \$11,759, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2008, primarily relating to the Electric and Water Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 7,161
Sick leave	<u>2,077</u>
Total	<u>\$ 9,238</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Electric	\$ 154,560
Capital Improvement Reserve	Electric	28,600
	Water	65,900
Electric	Debt Service	16,005

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(7) Risk Management**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **Required Supplementary Information**

La Porte City Utilities

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Proprietary Funds

Required Supplementary Information

Year ended June 30, 2008

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 39,959	26,934	38,290	1,669
Charges for service	1,699,041	1,574,504	1,716,627	(17,586)
Miscellaneous	143,393	69,110	143,238	155
Total receipts	1,882,393	1,670,548	1,898,155	(15,762)
Disbursements:				
Business type activities	1,782,609	1,453,924	1,917,158	134,549
Total disbursements	1,782,609	1,453,924	1,917,158	134,549
Excess (deficiency) of operating receipts over (under) operating disbursements	99,784	216,624	(19,003)	118,787
Other financing sources (uses):				
Bond proceeds	881,080	-	-	881,080
Debt service	(1,019,635)	(154,560)	(154,560)	(865,075)
Transfers in (out)	-	-	-	-
Other financing sources (uses), net	(138,555)	(154,560)	(154,560)	16,005
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses)	(38,771)	62,064	(173,563)	134,792
Balances beginning of year	1,011,255	875,663	1,011,255	-
Balances end of year	\$ 972,484	937,727	837,692	134,792

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. Only two of these ten functions are budgeted by La Porte City Utilities and they are: business type activities and debt service. Function disbursements required to be budgeted include disbursements for the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$227,607 and budgeted disbursements by \$463,234. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the debt service function.

### **Other Supplementary Information**



## La Porte City Utilities

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2008

	Proprietary Funds		
	Meter Deposits	Diesel Engine Improvement	Total
Receipts:			
Use of money and property	\$ 365	-	365
Total receipts	365	-	365
Disbursements:			
Business type activities	-	-	-
Total disbursements	-	-	-
Excess (deficiency) of receipts over (under) disbursements	365	-	365
Other financing sources:			
Operating transfers in/(out)	-	-	-
Net change in cash balances	365	-	365
Cash balances beginning of year	9,368	10,000	19,368
Cash balances end of year	\$ 9,733	10,000	19,733
<b>Cash Basis Fund Balances</b>			
Reserved for debt service:	-	-	-
Reserved:			
Capital projects fund	-	10,000	10,000
Permanent fund	9,733	-	9,733
Total cash basis fund balances	\$ 9,733	10,000	19,733

See accompanying independent auditor's report

**Schedule 2**

La Porte City Utilities  
Schedule of Indebtedness  
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
Utility Revenue Bonds - Electric fund	Mar 1, 2000	5.0 - 5.8%	\$ 1,465,000	965,000
Electric fund	May 1, 2008	3.0 - 3.8%	885,000	-
				<u>\$ 965,000</u>

See accompanying independent auditor's report

**Schedule 2**

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
-	965,000	-	54,160	-
885,000	-	885,000	-	-
885,000	965,000	885,000	54,160	-

**Schedule 3**

## La Porte City Utilities

## Bond and Note Maturities

June 30, 2008

Year Ending June 30,	Utility Revenue Bonds	
	Electric	
	Issued	
	Interest Rates	Amount
2009	3.00%	\$ 115,000
2010	3.15%	120,000
2011	3.30%	120,000
2012	3.40%	125,000
2013	3.50%	130,000
2014	3.70%	135,000
2015	3.80%	140,000
		<u>\$ 885,000</u>

See accompanying independent auditor's report

## La Porte City Utilities

Schedule of Receipts by Source and Disbursements By Function  
All Proprietary Funds

For the Last Seven Years

	2008	2007	2006	2005	2004	2003	2002
Receipts:							
Use of money and property	\$ 39,959	47,018	23,236	15,113	12,281	17,041	31,363
Charges for service	1,699,041	1,638,317	1,531,128	1,383,209	1,255,468	1,170,925	1,031,824
Miscellaneous	143,393	85,755	80,284	75,614	88,088	7,579	124,217
Bond proceeds	881,080	-	-	-	-	-	-
Total	<u>\$ 2,763,473</u>	<u>1,771,090</u>	<u>1,634,648</u>	<u>1,473,936</u>	<u>1,355,837</u>	<u>1,195,545</u>	<u>1,187,404</u>
Disbursements:							
Business-type	\$ 1,782,609	1,479,790	1,370,877	1,219,895	1,104,848	1,252,566	1,028,562
Debt service	1,019,635	154,595	154,320	153,740	152,760	151,285	155,035
Total	<u>\$ 2,802,244</u>	<u>1,634,385</u>	<u>1,525,197</u>	<u>1,373,635</u>	<u>1,257,608</u>	<u>1,403,851</u>	<u>1,183,597</u>

See accompanying independent auditor's report

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2008, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated December 30, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered La Porte City Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects La Porte City Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of La Porte City Utilities' financial statements that is more than inconsequential will not be prevented or detected by La Porte City Utilities' internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by La Porte City Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item II-A-08 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Porte City Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

La Porte City Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit La Porte City Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of La Porte City Utilities and other parties to whom La Porte City Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of La Porte City Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

December 30, 2008

La Porte City Utilities  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.



La Porte City Utilities  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

II-A-08 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

**Part III: Other Findings Related to Statutory Reporting:**

III-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will try to amend the budget before going overbudget in the future.

Conclusion – Response accepted.

III-B-08 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-08 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

III-D-08 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.

III-E-08 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-08 Board of Trustee Minutes – No transactions were found that we believe should have been approved in the board of trustee minutes but were not.

III-G-08 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility’s investment policy.

La Porte City Utilities

Staff

This audit was performed by:

Donald A. Snitker, CPA, Partner  
Gina E. Trimble, CPA, Senior Auditor